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Organizational Life Cycle

Historians and academics have observed that organizations, like living organisms, have life cycles. They are born (established or formed), they grow and develop, they reach maturity, they begin to decline and age, and finally, in many cases, they die. Study of the organizational life cycle (OLC) has resulted in various predictive models. These models, which have been a subject of considerable academic discussion, are linked to the study of organizational growth and development. Organizations at any stage of the life cycle are impacted by external environmental circumstances as well as internal factors. We're all aware of the rise and fall of organizations and entire industries. Products too have life cycles, a fact that has been long recognized by marketing and sales experts. It seems reasonable to conclude that organizations also have life cycles.

Students of this subject agree for the most part that predictable patterns can be seen when viewing the life span of a business organization. These patterns can be characterized by stages, often referred to as development stages. These development stages tend to be sequential, occur as a hierarchical progression that is not easily reversed, and involve a broad range of organizational activities and structures. The number of life cycle stages identified by any particular researcher will vary with the finds of other researchers depending on the granularity of his or her study. Some analysts have delineated as many as ten different stages of an organizational life cycle, while others have flattened it down to as few as three stages. Most models, however, hold to a view that the organizational life cycle is comprised of four or five stages that can be summarized simply as startup, growth, maturity, decline, and death (or revival).

TRENDS IN OLC STUDY

While a number of business and management theorists alluded to developmental stages in the early to mid-1900s, Mason Haire's 1959 work *Modern Organization Theory* is generally recognized as one of the first studies that used a biological model for organizational growth and argued that organizational growth and development followed a regular sequence. The study of organizational life cycles intensified, and by the 1970s and 1980s it was well-established as a key component of overall organizational growth.

Organizational life cycle is an important model because of its premise and its prescription. The model's premise is that requirements, opportunities, and threats both inside and outside the business firm will vary depending on the stage of development in which the firm finds itself. For example, threats in the start-up stage differ from those in the maturity stage. As the firm moves through the developmental stages, changes in the nature and number of requirements, opportunities, and threats exert pressure for change on the business.

Organizations move from one stage to another because the fit between the organization and its environment is so inadequate that either the organization's efficiency and/or effectiveness is seriously impaired or the organization's survival is threatened. The OLC model's prescription is that the firm's managers must change the goals, strategies, and strategy implementation devices to fit the new set of issues. Thus, different stages of the company's life cycle require alterations in the firm's objectives, strategies, managerial processes (planning, organizing, staffing,

directing, controlling), technology, culture, and decision-making. Five growth stages are observable: birth, growth, maturity, decline, and revival. They traced changes in the organizational structure and managerial processes as the business proceeds through the growth stages. At birth, the firms exhibited a very simple organizational structure with authority centralized at the top of the hierarchy. As the firms grew, they adapted more sophisticated structures and decentralized authority to middle- and lower-level managers. At maturity, the firms demonstrated significantly more concern for internal efficiency and installed more control mechanisms and processes.

Growth Phases

Most scholarly works focusing on organizational life cycles have been conceptual and hypothetical in content. Only a small minority have attempted to test empirically the organizational life cycle model. One widely-cited conceptual work, however, was published in the *Harvard Business Review* in 1972 by L. Greiner. He used five growth phases: growth through creativity; growth through direction; growth through delegation; growth through coordination; and growth through collaboration. Each growth stage encompassed an evolutionary phase ("prolonged periods of growth where no major upheaval occurs in organization practices"), and a revolutionary phase ("periods of substantial turmoil in organization life"). The evolutionary phases were hypothesized to be about four to eight years in length, while the revolutionary phases were characterized as the crisis phases. At the end of each one of the five growth stages listed above, Greiner hypothesized that an organizational crisis will occur, and that the business's ability to handle these crises will determine its future:

Phase 1—Growth through creativity eventually leads to a crisis of leadership. More sophisticated and more formalized management practices must be adopted. If the founders can't or won't take on this responsibility, they must hire someone who can, and give this person significant authority.

Phase 2—Growth through direction eventually leads to a crisis of autonomy. Lower level managers must be given more authority if the organization is to continue to grow. The crisis involves top-level managers' reluctance to delegate authority.

Phase 3—Growth through delegation eventually leads to a crisis of control. This occurs when autonomous employees who prefer to operate without interference from the rest of the organization clash with business owners and managers who perceive that they are losing control of a diversified company.

Phase 4—Growth through coordination eventually leads to a crisis of red tape. Coordination techniques like product groups, formal planning processes, and corporate staff become, over time, a bureaucratic system that causes delays in decision-making and a reduction in innovation.

Phase 5—Growth through collaboration, is characterized by the use of teams, a reduction in corporate staff, matrix-type structures, the simplification of formal systems, an increase in conferences and educational programs, and more sophisticated information systems. While Greiner did not formally delineate a crisis for this phase, he guessed that it might revolve around

"the psychological saturation of employees who grow emotionally and physically exhausted by the intensity of team work and the heavy pressure for innovative solutions."

ORGANIZATION LIFE CYCLE AND THE SMALL BUSINESS OWNER

Entrepreneurs who are involved in the early stages of business creation are unlikely to become preoccupied with life cycle issues of decline and dissolution. Indeed, their concerns are apt to be in such areas as securing financing, establishing relationships with vendors and clients, preparing a physical location for business operations, and other aspects of business start-up that are integral to establishing and maintaining a viable firm. Basically, these firms are almost exclusively concerned with the very first stage of the organization life cycle. Small business enterprises that are well-established, on the other hand, may find OLC studies more relevant. Indeed, many recent examinations of organization life cycles have analyzed ways in which businesses can prolong desired stages (growth, maturity) and forestall negative stages (decline, death). Certainly, there exists no timeline that dictates that a company will begin to falter at a given point in time. "Because every company develops at its own pace, characteristics, more than age, define the stages of the cycle," explained Karen Adler and Paul Swiercz in *Training & Development*.

Small business owners and other organization leaders may explore a variety of options designed to influence the enterprise's life cycle—from new products to new markets to new management philosophies. After all, once a business begins to enter a decline phase, it is not inevitable that the company will continue to plummet into ultimate failure; many companies are able to reverse such slides (a development that is sometimes referred to as turning the OLC bell curve into an "S" curve). But entrepreneurs and managers should recognize that their business is always somewhere along the life cycle continuum, and that business success is often predicated on recognizing where your business is situated along that measuring stick and adopting strategies best suited to that position in the cycle.